Wade Wire Q2 2015

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

What is the Wade Wire?

As a public information service, ***The Wade Wire*** is a regularly published/released quarterly report in which we identify, measure, and analyze key local economic indicators within Lucas County.

Rather than formulating a complex Index of Leading Economic Indicators aimed at predicting trends yet to occur, we want to determine how well our local economy is *currently* performing (compared to the prior year) based on three essential questions:

1. Are people working? 2. Are people spending?

3. Are people building?

The data sources we use generally fall under the category of "concurrent" economic indicators (reflective of present conditions). However, some of them have had historically leading or predictive qualities. Thus, each report will also include a quarterly assessment, aimed at summarizing significant developments within and among our indicators and evaluating their potential impact on our county's economy.

Wade Kapszukiewicz
Lucas County Treasurer

Second Quarter 2015 Report

In a virtual replay of last year, the U.S. economy again stumbled out of the gate in the first quarter to post a near-stagnant 0.2% GDP growth.[1] Later revisions estimated that the economy actually contracted (-0.2%) during the first quarter, due mostly to declining exports/increasing imports, weak business investment, and lackluster consumer spending.[2] Even worse, the pace of job creation dramatically decelerated by March, when there were only 119,000 new hires.[3]

Despite Fed assurances that the first quarter stall was due to "transitory factors" like a second straight brutal winter and a now-settled labor dispute (that disrupted trade at west coast ports), the data indicated that **the factors contributing to this year's slow start were greater in number, more complex, and more likely to restrain future growth than those faced in 2014.[4]** While most analysts anticipated a second quarter rebound, nobody expected a repeat performance of last year's torrid 5% expansion. More importantly, many wondered whether the data would be strong enough to convince the Federal Reserve Board to make its first rate increase in over nine years.

The Commerce Department's Advance Estimate report confirmed that **the American economy regained its footing in the second quarter, posting a 2.3% GDP gain, driven mostly by a better trade balance, strong consumer spending, and a surging housing sector.[5]** And in an additional piece of encouraging news, the first quarter GDP was again revised upward, back into positive territory – to 0.6%, due mostly to a significant upward adjustment of business investment data.[6]

Likewise, **job creation picked up steam in the second quarter, with the nation's employers posting 678,000 new hires from April through June.[7]** And in a particularly encouraging development, **the number of people seeking U.S. unemployment aid plunged in mid-July to 255,000 – the fewest since 1973 (42 years).[8]** Yet despite all of the economic progress, wages and salaries have only risen 2.0% in the past year. In fact, wage stagnation has persisted as the chief frustration throughout the recovery and has been a key reason the Fed has thus far delayed raising the federal funds rate.

Closer to home, the outlook was much murkier, as local economic indicators were a decidedly mixed bag. For example, the data showed that **the significant June unemployment drop in both Toledo and Lucas County was due to job gains rather than people leaving the work force** (yet wages were only slightly higher than the same period a year earlier). An analysis of local sales tax data indicated an increase in activity from a year ago, perhaps suggesting that **consumers may at last be using their savings from**

lower fuel prices to make additional purchases. However, for the first time in almost four years, local **auto sales failed to top the previous year's markers.**

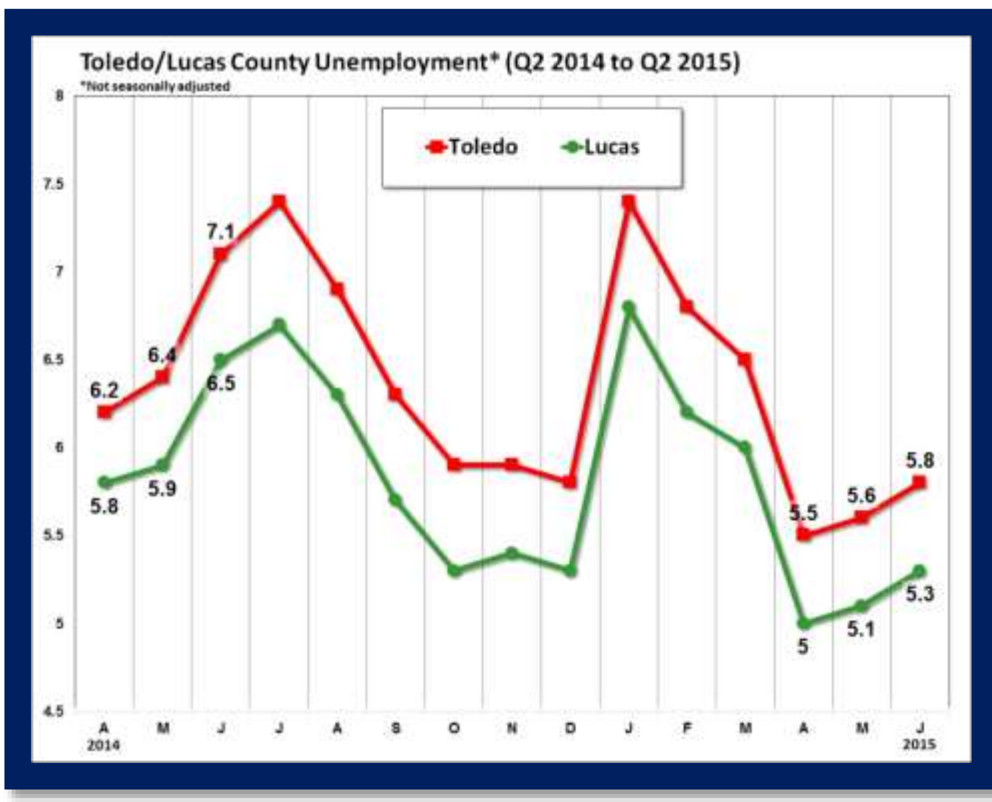
However, there's no sugar-coating the second quarter building permit activity numbers, which significantly lag last year's markers in three of the four main categories. Yet the year-to date totals are on-par or ahead of 2014 figures. True to form, the housing and construction sector has been the most volatile sector of the economy throughout the recovery and may likely remain among the chief causes for concern throughout the rest of the year.

As expected, the national economy bounced back in second quarter 2015, although with significantly less vigor than second quarter 2014. I'll assess the rebound's impact on various economic sectors throughout this report. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

Job creation unquestionably regained some momentum in the second quarter, albeit at a decidedly slower pace than some recent reporting periods. **The U.S. Department of Labor's revised data showed Second Quarter job gains of 187,000 jobs in April, 260,000 in May, and 231,000 in June.**[9] Once again in line with the national momentum, the local job market data also continued to improve, with both Toledo and Lucas County posting sizable drops in their year-over-year jobless rates.

Table 1 *(Source: Ohio Dept. of Job and Family Services)*[10]



Looking at the fifteen month rolling track of non-seasonally adjusted local unemployment data, the area continued to see a substantial improvement in its recent numbers.

As *Table 1* shows, Lucas County's April 2015 jobless rate dropped to 5.0%, down markedly from the 5.8% of the prior year. Likewise, the May rate of 5.1% was a significant improvement from the 5.9% posted a year earlier.

Lucas County ended the quarter in June with a jobless rate of 5.3%, a full 1.2% lower than the previous year (6.5%).

As the chart further indicates, **the Toledo job market also made substantial gains in the second quarter.** Its April 2015 jobless rate improved by 0.7% in a single year, to 5.5% from 6.2%. In May, it dropped by even more, this time to 5.6% from 6.4% in 2014. **Toledo then finished the quarter in**

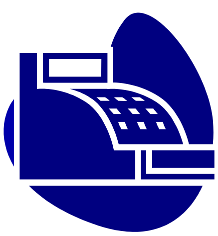
robust fashion by posting a June jobless rate of 5.8%, beating the previous year's mark (7.1%) by an impressive 1.3% spread.

As I've detailed in previous reports, fluctuations in unemployment rates can mean many things. Ticks downward can be skewed by demographic trends (i.e., baby boomers retiring) or discouraged job-seekers giving up their search for work, while upward movement can often be an encouraging sign that the long-term unemployed are rejoining the labor market. With that in mind, let's look closer at the year-over-year Civilian Labor Force (CLF, those actively seeking work) and employment statistics from June 2015, when the unemployment rate in Toledo fell by 1.3% and by 1.2% in Lucas County.

The city's non-seasonally adjusted data showed that **there were 3,500 more Toledoans working in June 2015 (123,100) than in June 2014 (119,600).[11]** But unlike previous quarters, *there were also more people seeking work* (130,700 in June 2015, compared to 128,800 in June 2014).[12] That same month **there were 5,700 more Lucas County residents working (200,800) than there were a year earlier (195,100),** while the number of county job-seekers also grew (from 208,700 in 2014 to 212,000 in 2015).[12]

Looking closer at the statistics, Toledo saw its June 2015 CLF grow by 1.48% from the prior year, while its employment level increased by 2.93%. At the same time, Lucas County's CLF went up by 1.58%, while its employment level grew by 2.92%. The area's job market has no doubt improved since the end of the recession and the unemployment rate has consistently declined, but why and to what extent have often been subjects for debate. Yet this second quarter CLF to Employment ratio suggests that **the impressive June single-year unemployment rate drop was driven *by job gains, rather than people dropping out of the work force.***

Turning to the issue of wages, despite the improvement in the local labor market, our local payroll withholding survey data nonetheless revealed a somewhat disappointing second quarter gain of only 1.20%.[13] While the year-to-date (YTD) statistics show area wages growing by an average of 2.28% in the past year, it's apparent that some slack must still remain in the local job market. As I'll discuss in the summary, despite the soft job growth and weak GDP numbers, **U.S. wages grew by a 0.2% in the second quarter and 2.0% in the 12 months through June, barely ahead of inflation.[14]**



Are People Spending?

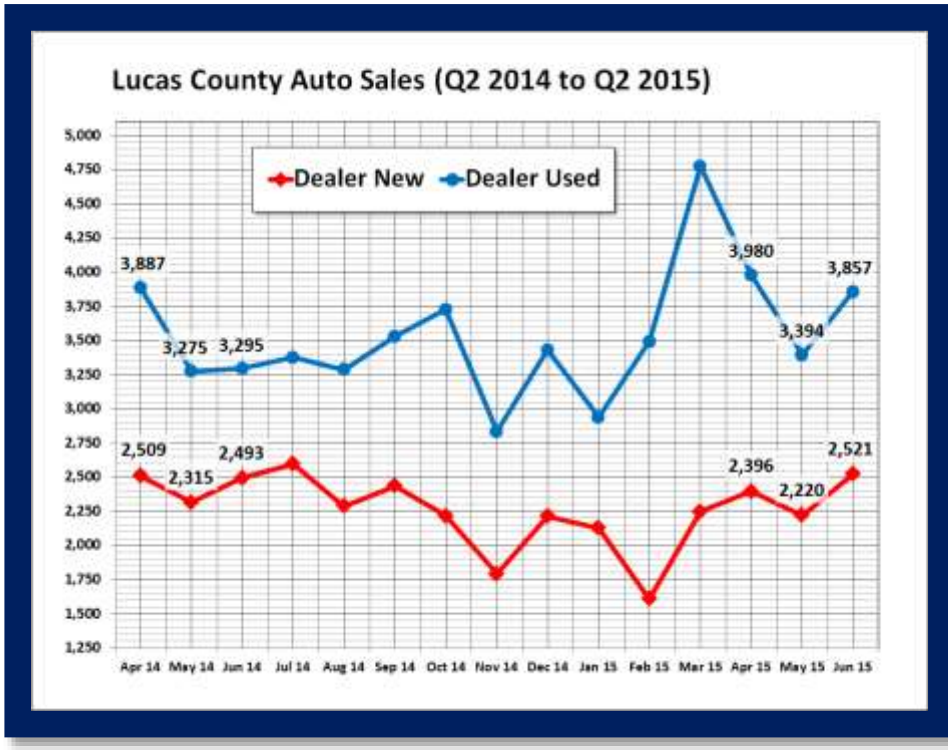
As I mention in every report, it's the flow of currency (from employer to employee, from consumer to merchant/vendor) that is the lifeblood of a thriving local economy. For the purpose of this report, I focus on two key concurrent indicators of consumer spending – the sales tax generated by purchases made in Lucas County and the motor vehicle sales sector of the local economy.

Second quarter consumer spending was robust, as **taxes collected on sales in Lucas County increased by 9.34% from a year ago (a gain of $1,734,177.61).[15]** As I mentioned earlier, consumers may at last be using their savings from lower fuel prices to make additional purchases. It's also worth noting that the **year-to-date tallies are up 9.75% from the same period a year ago**.[16]

As I noted in last year's second quarter report, these year-to-date figures are somewhat remarkable given the tens of millions of dollars likely sidelined during the brutal winter months at the beginning of the year.

I've mentioned in recent reports that the steadily growing sales in recent years have benefited area commerce but haven't exactly delivered a windfall to county government. For example, the recent increases were hardly enough to offset years of declining revenues and rising costs (including the newly added expense of housing Toledo's inmates and the need to build a new jail), leading the county commissioners to recently raise the sales tax rate, by an additional 0.25% for the first time since 1992. As a result, sales tax data for the third quarter will be the first to be affected by the new rate, but will be adjusted accordingly for accurate year-over-year-comparison.

Table 2 *(Source: Lucas County Clerk of Courts)*[17]



Meanwhile, there remain few better indicators of consumer confidence than the purchase of durable goods, and it's hard to find an example more fitting and relevant to our region than auto sales.

As *Table 2* indicates, **Lucas County auto dealers posted a second quarter new car sales loss of 2.46%**. On the bright side, area dealers saw their pre-owned car sales grow by 7.40% during the same period.

As I mentioned earlier, **this marks the first time since the fourth quarter of 2011 that Lucas County dealers failed to post a year-over-year quarterly gain.**[18] However, it's worth noting that the historical data suggests last year's second quarter new car sales were disproportionately high by seasonal standards. And the year-to date sales figures are still nearly equal (13,127 by mid-year 2014, 13,119 in 2015). And U.S. auto industry analysts are still optimistic that total sales in 2015 will top the all-time historic high of 17.4 million.[19]

Of course, all attention locally is on Jeep and the production location of the next-generation Wrangler. (An announcement is now due "by the end of summer.") Meanwhile, Jeep hit yet another milestone, this time posting its best quarter ever – with global sales up 47% from a year ago to 316,000.[20]

Are People Building?

Building permit activity has always been considered the gold standard of economic indicators. Because the industry relies on a combination of confidence and optimism, access to credit, and several time-intensive stages of planning and development, economists have long relied on building permit activity as a tried and true "leading" or predictive indicator for an economy's future direction. In addition, it bears repeating that the construction industry is also well known for its "multiplier effect," generating spin-off manufacturing, retail, and transportation jobs and profit.

Note: In tracking local building permit activity, we periodically exclude from our comparison certain infrequent or large-scale projects. For example, the one-time construction of the Hollywood Casino was of vital importance to the local construction industry, but its inclusion would have skewed any worthwhile statistical comparison.

As *Table 3* shows, the area's **new residential construction permit activity plunged substantially in second quarter 2015.** Permits were drawn for a combined estimated value of $17,135,472. **The drop (-$7,173,141) marked a 29.51% decline from 2014 figures.**

Also, **residential additions and alterations permit activity dipped in the second quarter.** Permits were drawn for a combined estimated value of $8,387,707. **The drop (-$798,393) was a 8.69% decrease from the 2014 totals.**

On the other hand, **new commercial construction activity skyrocketed during second quarter 2015.** Permits were drawn for a combined estimated value of $69,383,171. **The spike ($43,425,748) marked a 167.30% gain over 2014 numbers.**

Last, **commercial adds/alterations activity showed a steep decline in second quarter 2015.** Permits were drawn for a combined estimated value of $18,557,340. **The drop (-$20,972,023) represents a disappointing 53.05% decrease from the 2014 figures.**

Though the second quarter permit numbers were disappointing, the picture was a little brighter from the year-to-date perspective – where two of the categories were significantly ahead of 2014 figures, and a third wasn't far behind. Still, given the construction industry's importance to the region's economy, the sector appears to be at a pivotal turning point at mid-year.

True to the volatile form that the U.S. housing and construction sectors have followed throughout the recovery, the second quarter indicators were generally positive, but not without caution signs. For example, **April and June housing starts were at the highest levels since late 2007.**[23]**Yet new home sales also fell 6.8% that same month.**[24]

Perhaps an indication of both builder optimism and pent-up demand, **building permit activity rose in June to levels not seen since July, 2007.**[25]But industry analysts suggest that much of the new home building activity is focused on both cheaper multifamily units and higher-end models, aimed at the more affluent "move-up" market. **Despite the improving job market, younger/first-time home buyers only comprise about 30% of the current market, well below the historic levels of 40-45% considered required for a thriving housing market.**[26]

Turning to the second quarter 2015 local real estate market, the data were fairly encouraging. **The Toledo Board of Realtors reported that total home sales were up 7% compared to the first quarter of 2014.**[27]The average sale price rose to $138,213 (an increase of 10%).[28]And, in line with the national dynamic of shrinking inventories, the number of listings actually went down

Table 3 **Q2/15 Permits (vs. Q2/14)**[21]

Residential New	
Permits: 155	Est: $17,135,472
-6 (-3.73%)	-$7,173,141 (-29.51%)
Residential Add/Alt	
Permits: 1,074	Est: $8,387,707
-90 (-7.73%)	-$798,393 (-8.69%)
Commercial New	
Permits: 105	Est: $69,383,171
-9 (-7.89%)	$43,425,748 (167.30%)
Commercial Add/Alt	
Permits: 301	Est: $18,557,340
9 (3.08%)	-$20,972,023 (-53.05%)

Table 4 **Q2/15 YTD Permits (vs. Q2/14)**[22]

Residential New	
Permits: 270	Est: $39,120,777
-13 (-5.06%)	$4,147,484 (11.87%)
Residential Add/Alt	
Permits: 1,583	Est: $12,687,265
-32 (-1.98%)	-$1,000,260 (-7.31%)
Commercial New	
Permits: 140	Est: $123,441,871
-56 (-28.57%)	$79,563,884 (181.33%)
Commercial Add/Alt	
Permits: 509	Est: $31,113,404
25 (5.17%)	-$45,778,447 (-59.54%)

by 4% (from 2,858 in 2014 to 2,731 in 2015), and the average days on market was shorter (-4%).[29]

As I mentioned in the introduction, few people doubted that the economy would pick up steam in the second quarter. Instead, the debate centered on the relative strength and endurance of the rebound, whether and/or when the Fed would pull the trigger on its first federal funds rate increase since June 2006, and the potentially harmful consequences of misjudging the proper timing of the move.

Summary: An Assessment of Second Quarter 2015

In short, the economic signals coming out of second quarter 2015 are mixed.

Despite appearances, the first quarter 2015 GDP stumble was far from a mere replay of first quarter 2014, with its chief culprit being mainly the brutal winter. Like last year, the harsh early-year weather no doubt kept shoppers and car-buyers away from stores and dealerships. But the relative similarity ends there, at least where the number and complexity of the obstacles to growth are concerned.

As a result, comparing the relative strengths of the 2014 and 2015 second quarter rebounds is equally spurious. For example, the west coast port labor disruption, the strong dollar, and sagging foreign markets all combined to exacerbate the trade imbalance and shave nearly two full points from first quarter 2015 growth.[30] But once the labor dispute was settled and ports reopened, exports rebounded in second quarter 2015 and actually added 0.13 percent to growth.[31]

Turning to the labor market, **job growth regained momentum in the second quarter (687,000 new hires), but wages barely kept pace with inflation (0.2% for the quarter, 2.0 in the last year).[32]**Both figures marked the smallest quarterly gains in 33 years (1982).[33]

If there's any promising news on the wage front, it's that wages are increasing fastest among younger workers and new hires, the segment whose wages dropped the most during and just after the Great Recession. When combined with the recent minimum wage increases by numerous state and local governments, as well as some of the nation's largest employers (most notably Walmart and McDonald's), the additional disposable income should help stimulate durable goods purchases and perhaps move more young people into first-time home buyer eligibility.

As U.S. Labor Secretary Thomas Perez recently remarked, "The difference between where we are now and where we were in the 1990s is that prosperity then lifted more boats." He added, "The unfinished business of the recovery is wage growth. Too many people are working a 50-hour workweek and getting their food at a food pantry."[34]

Federal Reserve Chair Janet Yellen stresses that wages will inevitably rise as the nation nears what it considers to be "full employment." So were the second quarter numbers strong enough to warrant a rate increase despite the absence of positive wage data?

My greatest concern is that if the Fed moves too prematurely to slow growth, it will do little to help stoke upward wage pressure. Far worse, those people who have worked those long hours for too little pay may, instead, lose their jobs.

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